



Advanced Petrochemical Company

KSA Petrochemical Sector | 2Q 2015 Preliminary Results | July 5, 2015

2Q15 review: Solid earnings beat estimates; Downgrade to Hold after strong rally

2Q15 net profit well ahead of SFC/consensus potentially from stronger margins:

Advanced reported a strong set of 2Q15 results with headline net profit of SAR243m (+32% yoy, +170% qoq) that has convincingly beaten SFC/consensus estimate by c.19%/28%. Operational performance was also much stronger than expected with gross profit/EBITDA/EBIT c.21%/18%/22% ahead of our estimates. While no further details are disclosed, with Asian polypropylene prices for the quarter largely known and with our assumption of capacity utilization level well ahead of 100%, it seems the beat has primarily originated from higher than expected margins. Note that in our petrochemical sector preview report (published on 30th June), we noted that in 2Q15, petrochemical product price increase (c.+20% qoq) far outpaced crude price increase (c.+10% qoq) and consequently, we highlighted margin expansion as a key theme for 2Q15 which seems to have unfolded in Advanced's earnings.

Advanced's resilient pass-through business model means impact of lower crude oil price on earnings is relatively less compared to peers: Going forward, while global demand for polypropylene is set to remain buoyant, operating rates are likely to hold at least stable. However, the key issue is potentially lower average crude price in 2015 (vs. 2014) which should negatively affect polypropylene price. That said, we highlight that Advanced has a resilient pass-through model as c.100% of its feedstock is oil based (c.30% discount to market) meaning a fall in crude oil price lowers its feedstock costs (c.85% of cash cost base) as well and to a large extent offsets the decline in product prices. According to our estimates, while c.+/-5% change in crude price changes valuation by c.+/-6% at the sector level, it impacts Advanced's valuation by only c.2.5%.

Downgrade to Hold after strong rally: Ytd, Advanced has increased c.45% and since the publication of our 1Q15 preview note (published on 31st March 2015) where we highlighted Advanced, SABIC and Yansab as our top picks in the sector, Advanced's stock price has increased c.41%, a solid outperformance vs. Tadawul Petchem index (c.10%) and Tadawul (c.4%). That said, while we continue to like Advanced (resilient pass-through model, attractive dividend yield, strong B/S), after the strong rally, we believe the positives are largely priced in. On our numbers, Advanced trades at 2015E/16E P/E of 14.1x/12.8x (vs. Tadawul Petchem 16.6/13.6x, global 16.4x/14.3x). All in all, post publication of 2Q15 results, we downgrade the stock to Hold with an unchanged SAR61.0/share target price.

SAR mn	2Q15A	2Q15E	% dev	Cons	% dev	1Q15	% qoq	2Q14	%yoy
Revenues	Na	665	Na	Na	Na	468	Na	808	Na
Gross Profit	264	218	21%	Na	Na	111	138%	193	37%
EBITDA (est)**	306	259	18%	Na	Na	146	109%	234	31%
EBIT	254	207	22%	Na	Na	100	153%	183	39%
Net Profit***	243	204	19%	190	28%	90	170%	185	32%

Source: Company, Saudi Fransi Capital analysis, * Bloomberg consensus, **estimated from available disclosure, *** for Advanced Net profit is reported before tax

Rating Summary

Recommendation	Hold
Target price (SAR)	61.0
Upside/ (downside)	4%

Stock Details

Closing price*	SAR	58.5
Market capitalization	SAR mn	9,594
Shares outstanding	Mn	164
52-Week High	SAR	60.2
52-Week Low	SAR	37.2
Price chg. (3 months)	%	41.0
EPS 2015E*	SAR	4.16
Ticker (Reuters/ Bloomberg)	2330.SE	APPC AB

*Price as of July 5, 2015, *post tax EPS

Key Shareholding (%)

Public	85.6
National Polypropylene Co.	8.0
GOSI	6.4

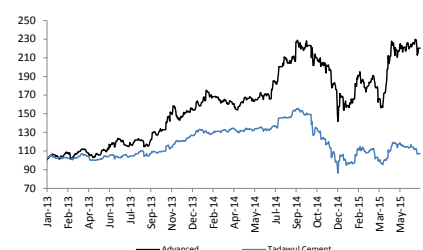
Source: Tadawul

Key Ratios

	2015E	2016E
P/E (x)	14.1	12.8
EV/EBITDA (x)	12.0	11.3
Dividend yield (%)	5.1	5.8

Source: Saudi Fransi Capital analysis

Stock price movement vs. TASI



Source: Tadawul

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Recommendation Framework

BUY: The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

HOLD: The analyst recommends a HOLD when our fair value estimate ranges within $\pm 10\%$ of the current share price.

SELL: The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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